

Message Text

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ACTION EB-07

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 8645

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E.O. 11652: N/A

TAGS: ENRG, CS

SUBJECT: STATUS OF SALE OF ESSO PROPERTIES IN COSTA RICA

REF: SAN JOSE A-109, 9/6/74

1. RODOLFO NARVAEZ, MANAGER OF ESSO STANDARD OIL S.A. LTD. OF COSTA RICA, ACCOMPANIED BY SALVADOR JUNCADILLA, ESSO'S LAW DEPARTMENT MANAGER FOR COSTA RICA, CALLED ON THE CHARGE NOVEMBER 20 TO DESCRIBE THE DIFFICULTIES THEY ARE HAVING IN TERMINATING THE AFFAIRS OF THE ESSO COMPANY IN COSTA RICA.

2. ESSO'S INTENTION, WHICH WAS CONVEYED IN WRITING TO MINISTER OF ECONOMY JORGE SANCHEZ ON JUNE 25TH, IS TO SELL ALL OF ITS PETROLEUM-RELATED FACILITIES IN COSTA RICA. ALL OF THE GASOLINE STATIONS HAVE ALREADY BEEN SOLD, OR ARE IN THE PROCESS OF SALE, BUT THE STORAGE AND DEPOT FACILITIES CANNOT BE SOLD WITHOUT PERMISSION OF THE COSTA RICAN GOVERNMENT, AS ESSO'S OPERATING CONTRACT WITH THE GOVERNMENT GIVES THE GOVERNMENT FIRST OPTION TO BUY SUCH PROPERTIES AT BOOK VALUE. SO FAR, THE COMPANY HAS BEEN UNABLE TO OBTAIN AN ANSWER FROM THE GOVERNMENT AS TO WHETHER OR

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NOT THE GOVERNMENT WISHES TO EXERCISE THIS OPTION.

3. ESSO'S CHEMICAL SUBSIDIARY, ESSOCHEM DE CENTRO-AMERICA S.A., WOULD CONTINUE TO OPERATE IN COSTA RICA AFTER ESSO SELLS OFF ITS PETROLEUM-RELATED ASSETS. ESSO HOPES TO BE ABLE TO TRANSFER TO ESSOCHEM ONE OF THE PROPERTIES ON WHICH THE GOVERNMENT HAS AN OPTION, THE SO-CALLED "KILOMETRO UNO" PLANT LOCATED JUST OUTSIDE OF SAN JOSE WHICH IS USED MAINLY BY ESSOCHEM. ESSO EXPECTS TO BE ABLE TO SELL THE OTHER FOUR FACILITIES, IF THE GOVERNMENT DOES NOT EXERCISE ITS OPTION. SO FAR, HOWEVER, A SERIES OF MEETINGS WITH THE MINISTER AND MOST RECENTLY WITH VICE PRESIDENT CASTILLO HAVE LEAD TO NOTHING MORE THAN AN OFFER, WHICH THE COMPANY HAS REJECTED, TO ALLOW ESSOCHEM TO TAKE OVER THE KILOMETRO UNO PLANT, PROVIDED ESSO CEDES THE OTHER FOUR PROPERTIES FREE OF CHARGE TO THE GOVERNMENT. THE KILOMETRO UNO PLANT HAS A BOOK VALUE OF SOME \$98,000 AND THE OTHER FOUR PROPERTIES HAVE A TOTAL BOOK VALUE OF ALMOST \$200,000.

4. CLEARLY ESSO IS BECOMING ANNOYED THAT AFTER FIVE MONTHS IT IS UNABLE TO GET A SATISFACTORY REPLY FROM THE COSTA RICAN GOVERNMENT. IT WOULD NOT BE SURPRISING IF THE COMPANY SEEKS ASSISTANCE FROM THE USG IN RESOLVING THIS MATTER, IF THE COSTA RICAN GOVERNMENT DOES NOT SOON MAKE UP ITS MIND WHETHER IT WISHES TO EXERCISE ITS CONTRACTUAL RIGHTS TO PURCHASE THE ESSO FACILITIES, OR WHETHER IT WOULD PREFER TO ALLOW ESSO TO DISPOSE OF THE FACILITIES AS IT WISHES.

5. ABOUT THE ONLY POSITIVE THING THAT HAS HAPPENED IN THE COURSE OF THE DISCUSSIONS ON DISPOSAL OF THE ESSO PROPERTIES IS THAT THE SOLICITOR GENERAL OF COSTA RICA RULED THAT ESSO'S CONTRACT OF 1962 WITH THE COSTA RICAN GOVERNMENT, THE VALIDITY OF WHICH HAS LONG BEEN A POINT OF DISPUTE BETWEEN THE GOVERNMENT AND ESSO, IS A VALID CONTRACT. THIS CONTRACT IS UNDERSTOOD TO BE IDENTICAL TO TEXACO'S, THE LEGALITY OF WHICH HAS ALSO BEEN CHALLENGED IN THE PAST.

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